

**Supporting Statement for the
Notice By Financial Institutions of Government Securities Broker or Government
Securities Dealer Activities and the
Notice By Financial Institutions of Termination of Activities as a Government Securities
Broker or Government Securities Dealer
(FR G-FIN, FR G-FINW; OMB No. 7100-0224)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, two interagency information collections:

- the Notice By Financial Institutions of Government Securities Broker or Government Securities Dealer Activities (FR G-FIN; OMB No. 7100-0224)
- the Notice By Financial Institutions of Termination of Activities as a Government Securities Broker or Government Securities Dealer (FR G-FINW; OMB No. 7100-0224).

The Government Securities Act of 1986 (the Act) requires financial institutions to notify their appropriate regulatory authority (ARA) of their intent to engage in government securities broker or dealer activity, to amend information submitted previously, and to record their termination of such activity.

The Federal Reserve is the ARA for state member banks, foreign banks, uninsured state branches or state agencies of foreign banks, commercial lending companies owned or controlled by foreign banks, and Edge corporations. The Federal Reserve Board uses the information in its supervisory capacity to measure compliance with the Act. The total estimated annual burden for both notices is twenty-six hours, which represents less than 1 percent of total Federal Reserve System annual reporting burden. Copies of the current forms and instructions are attached.

Background and Justification

The Act established for the first time federal regulation of brokers and dealers of government securities, including banks and other financial institutions. The Act directed the Treasury Secretary to adopt regulations concerning consumer protection as well as the financial, reporting, and recordkeeping responsibilities of brokers and dealers. In promulgating its regulations, the Department of the Treasury (Treasury) was directed to consult with the Securities and Exchange Commission (SEC), the Federal Reserve Board, and the other federal banking regulatory agencies, and to consider the sufficiency of existing laws and regulations of other agencies.

Beginning on July 25, 1987, all financial institutions that serve as government securities brokers and government securities dealers were required to notify their appropriate federal

banking regulatory agency of such activities.¹ They notify their ARA on forms prescribed by the Federal Reserve Board that they are engaged in, or have ceased to be engaged in, the activity. The federal banking regulatory agencies enforce these Treasury regulations for financial institutions. The Act required previously unregulated nonbank government securities brokers and dealers to register with the SEC and to join a self-regulatory organization (SRO). The SEC and SROs enforce these Treasury regulations for nonbanks.

Some institutions are exempted from the notice requirement by the Treasury regulation. For example, an institution whose activity is limited to issuing or forwarding U.S. Savings Bonds is exempt. When an exemption no longer applies, the institution must immediately file a notice.

Description of Information Collection

Pursuant to the Act, the FR G-FIN is the initial notice of government securities broker or dealer activities and is used to amend obsolete information. The information collected on the FR G-FIN includes the company name, all business addresses, names and titles of managers of government securities activities, and whether any person associated with the respondent's government securities activities has been involved in disciplinary proceedings related to securities sales. The FR G-FINW is the notice of termination of government securities broker or dealer activities and collects the company name, address, and contact person responsible for the records associated with the financial institution's activities as a government securities broker or dealer. Both reports are event generated.

An important function of the FR G-FIN is to help financial institutions determine whether they must file notices pursuant to the Act. The definitions of "government securities broker" and "government securities dealer" in the statute are very broad and read literally would encompass most banks and many thrift institutions. Treasury has the authority to exempt institutions from this requirement if it is consistent with the intent of the Act. When the Treasury regulations were first developed to implement the reporting requirements of the Act, the Federal Reserve worked closely with staff members at Treasury and the other federal banking regulatory agencies to narrow as much as possible the class of financial institution that is required to file Form G-FIN; the consensus of the agencies is reflected in instruction B.

In addition to incorporating Treasury's exemptions from the notice requirement in the instruction section of the form, the Federal Reserve has also prominently summarized these exemptions on the cover of the FR G-FIN in a box labeled "Notice Requirements" in order to provide a simpler and easier means for financial institutions to determine if they are exempt.

The statute requires that the notice contain such information concerning the financial institution "and any persons associated with" the institution as the Federal Reserve deems to be in the public interest or necessary for the protection of investors. Respondents are required to

¹The agencies are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS).

report in item 6 the names of persons directly engaged in the management, direction, or supervision of their government securities dealer activities (rather than all management personnel of the financial institution). This parallels similar information that the SEC requires in the municipal securities dealer registration form (Form MSD; OMB No. 3235-0083). Item 7 incorporates a narrower definition of the "persons associated" term than is contained in the statute (this narrower definition has been agreed to by the other ARAs). The respondent is required to review employee data from other information collections (Form MSD-4; Form G-FIN-4, OMB No. 1557-0184; and the National Association of Securities Dealers' Form U-4) and inform its ARA if any associated person has responded "Yes" to any questions on those forms related to previous disciplinary actions that would constitute statutory disqualifications against the associated person or any of the employers for whom the associated person worked.

Currently between 90 and 100 banks are nonexempt government securities brokers or dealers and are required to file the Form G-FIN. The Federal Reserve Board is currently the ARA for 43 of these: 34 state member banks and 9 branches and agencies of foreign banks. Many of these banks are also registered municipal securities dealers.

The FR G-FINW termination notice collects the name and address of the financial institution, as well as the name and address of the custodian of the institution's records of its government securities activities.

Time Schedule for Information Collection

Financial institutions whose ARA is the Federal Reserve file FR G-FIN before commencing operations as a government securities broker or dealer. Amended FR G-FIN reports are due within thirty days of the date on which information on the previous notice became inaccurate. Financial institutions that cease to act as a government securities broker or dealer should file FR G-FINW immediately. Respondents file two copies of the notice directly with the Federal Reserve Board. The Federal Reserve forwards one copy of the notices to the SEC. The notices are available to the public upon request to the ARA or the SEC. The data are not published.

Legal Status

The Board's Legal Division has determined that 15 U.S.C. 78o-5(a)(1)(B) authorizes the Board to require the report. The notices are not treated as confidential.

Consultation Outside the Agency

The Federal Reserve Board staff consults on occasion with Treasury concerning these reports.

Estimate of Respondent Burden

The estimated average response time is one hour for the FR G-FIN and is fifteen minutes for the FR G-FINW. Because the frequency of filing these forms is event generated, it is not possible to predict exactly how many forms will be filed in a particular year. The actual number of notices received during 2002 was used to estimate the annual reporting burden. The total annual burden of these reports represents less than 1 percent of total Federal Reserve System annual reporting burden.

	<i>Estimated number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR G-FIN	25	1	1.00	25
FR G-FINW	4	1	0.25	<u>1</u>
<i>total</i>				26

Based on a rate of \$20 per hour, the estimated current annual cost to the public of these reports is estimated to be \$520.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

Since the reports require no automated processing, the cost to the Federal Reserve System is negligible.